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February 19, 1997

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Federal Communications Commission
Office of Secretary

Ex Parte

Mr. William F. Caton
Acting Secretary
1919 M Street N.W., Room 222
Federal Communications Commission
Washington, D.C. 20554

RE: Ex Parte Meeting on Universal Service: CC Docket No. 96-45

Dear Mr. Caton:

Today, representatives of BellSouth met with Emily Hoffner, Bryan Clopton, Tejal Mehta, Bob Loube, Jeanine Poltronieri, Diane Law and Cheryl Leanza of the FCC and Tom Wilson, Washington UTC, Barry Payne, Indiana Office of Utilities Consumer Council, Sandra Makeeff, Iowa Utilities Board and Brian Roberts, California PUC to discuss BellSouth's position in the above-mentioned proceeding. The attached charts were provided as an aid to the discussion. These charts are consistent with BellSouth's position already filed in this proceeding. Representing BellSouth were Ms. E. Baumwell, C. Cox and Mr. P. Martin, and the undersigned.

This notice is being filed today pursuant to Section 1.1206(a)(2) of the Commission's rules. If you have any questions concerning this filing, please do not hesitate to contact me.

Sincerely,

Maurice P. Talbot, Jr.

Maurice P. Talbot, Jr.
Executive Director - Federal Regulatory

Attachment:
cc: Emily Hoffner w/o attachments
Bryan Clopton w/o attachments
Tejal Mehta w/o attachments
Bob Loube w/o attachments
Jeanine Poltronieri w/o attachments
Diane Law w/o attachments
Cheryl Leanza w/o attachments
Tom Wilson, Washington UTC w/o attachments
Barry Payne, Indiana Office of Utilities Consumer Council w/o attachments
Sandra Makeeff, Iowa Utilities Board w/o attachments
Brian Roberts, California. PUC w/o attachments

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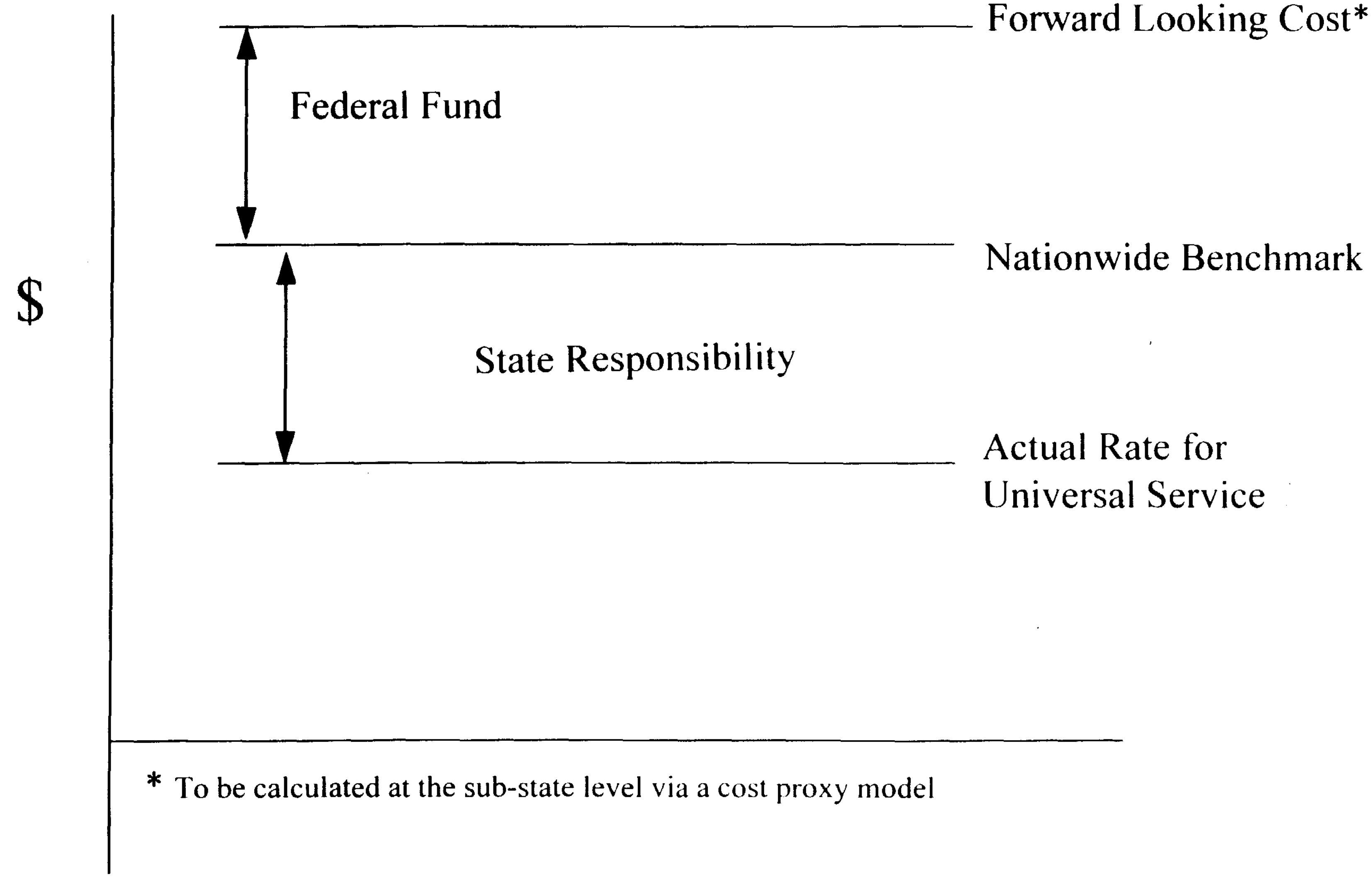
List ABCDE

UNIVERSAL SERVICE

- Act requires size of fund to be sufficient.
- Act requires that implicit support be made explicit.
- Implicit support is not sustainable in the competitive marketplace.
- Federal sources of implicit support include CCL charge, TIC, and local switching.

UNIVERSAL SERVICE HIGH COST SUPPORT OVERVIEW



* To be calculated at the sub-state level via a cost proxy model

SIZE OF FUND

- Sufficient federal high cost fund (approximately $8B) would make interstate support explicit.

- Insufficient federal fund burdens high cost states while low cost states pay little or no support.

- Universal Service is premised on low cost areas supporting high cost areas
  - This is not "inequitable"
  - Averages support for high cost and insular areas over large base

FUNDING UNIVERSAL SERVICE

- Funding should be competitively neutral.

- Contributions should be based on interstate and intrastate retail revenues.
  - If small fund established, then only interstate revenues should be used.

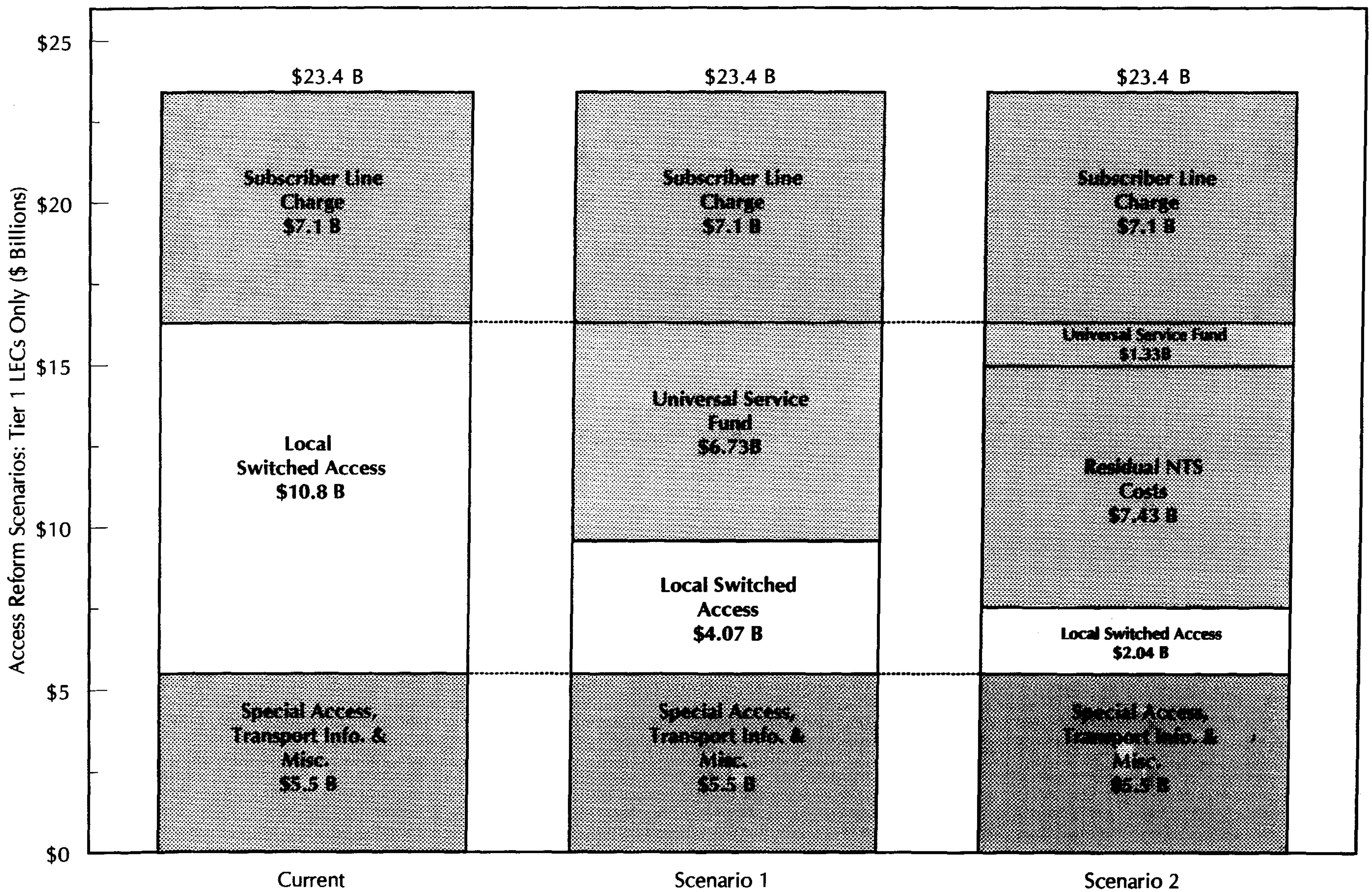
Contributions should be recovered via a mandatory end user surcharge:
  - Explicit
  - Competitively neutral
  - Easy to administer

- Any contributions not recovered by end user surcharge should be recovered from IXCs on flat-rate basis.

UNIVERSAL SERVICE & ACCESS REFORM

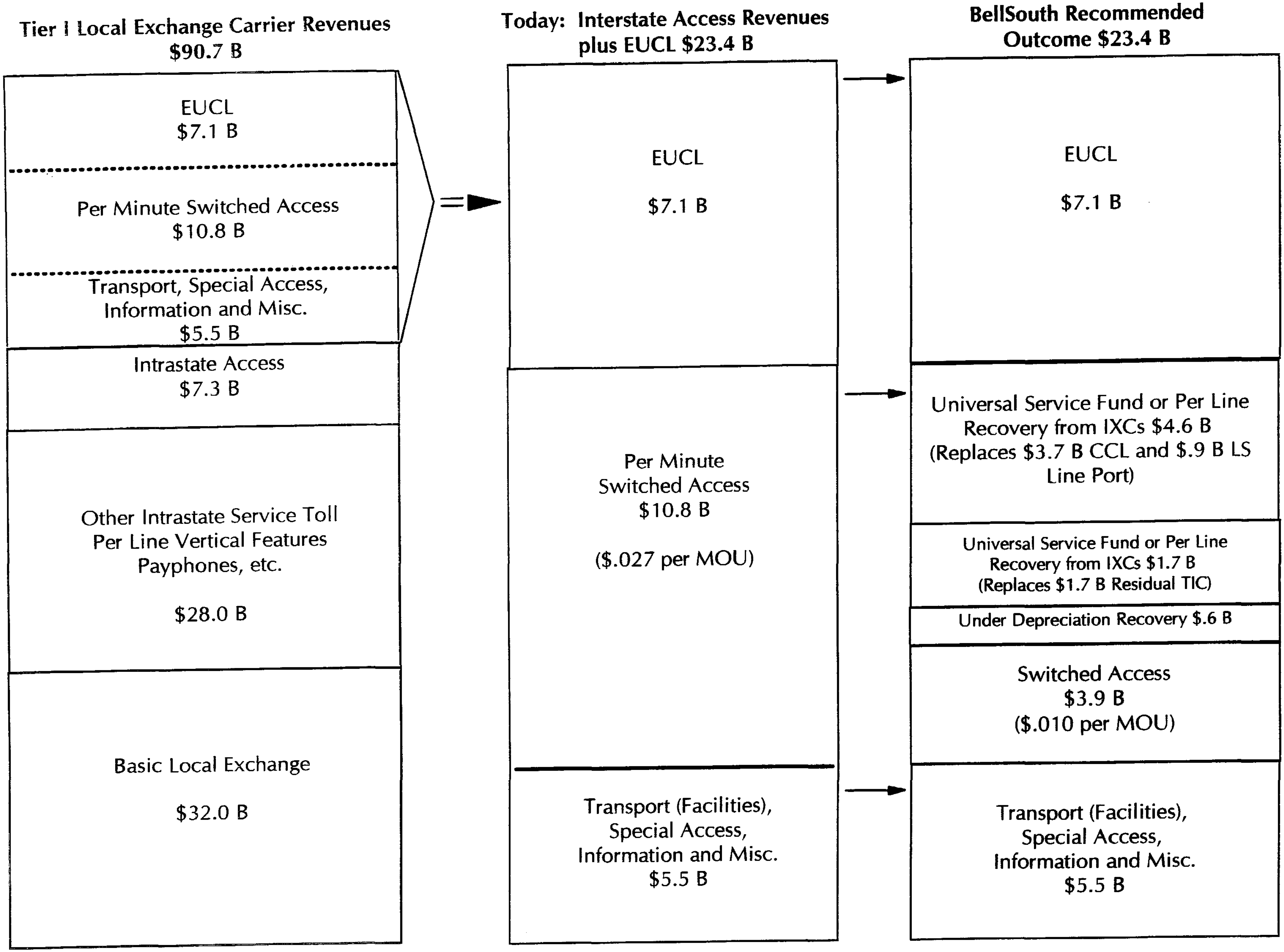
- Universal Service cannot be considered in isolation.
- Transforming implicit subsidy to explicit subsidy requires addressing access elements currently under review in Docket 96-262.
- To prevent double recovery, CCLC, TIC and local switching would be reduced based on net receipts from universal service fund.
- If receipts from fund do not cover all of implicit subsidy, then LECs should bill remainder on flat-rate per line basis to IXCs based on number of presubscribed lines.

Access Charge Reform Scenarios



Cost Recovery Mechanisms:			
USF Surcharge	N/A	4.0% of all Retail Revenue	1.6% of Interstate Revenue
NTS Cost Per Line	N/A	N/A	$4.34/month
Local Switched Rates	2.7 cents/minute	1 cent/minute	0.5 cent/minute

Interstate Access Reform



Source: CC Docket 96-262, Table I

BE[redacted]

PERCENTAGE VS. FLAT-RATE SURCHARG[redacted]

Percentage of Monthly Billing (4.3%)

   [redacted]

Monthly Bill:	**$12**	**$30**	**$200**	[redacted]
Surcharge%	**4.3%**	**4.3%**	**4.3%**	
USF Contribution	**$0.52**	**$1.29**	**$8.60**	

Monthly Flat-Rate Per Line ($4/Month)

Monthly Bill:	**$12**	**$30**	**$200**	
Per Line Charge	**$4**	**$4**	**$4**	

Note: This chart does not reflect the offsetting reductions in toll and other charges which will result.
Percentage based on interstate/intrastate revenues; retail revenues approach

A $10 Billion Federal Fund Would Be Sufficient

- FCC should take on non-jurisdictional fund which comprises both federal and state.
- $2.25B for education and libraries and minimal additional funding for health care.
- Lifeline/Link-up programs already in place in most states ($350M).
- High cost funding based on interstate and intrastate revenues = $7.4B. (BCM2 Cost Model and $30 benchmark.)
- Additional implicit support to be dealt with at state level (approximately $8B)

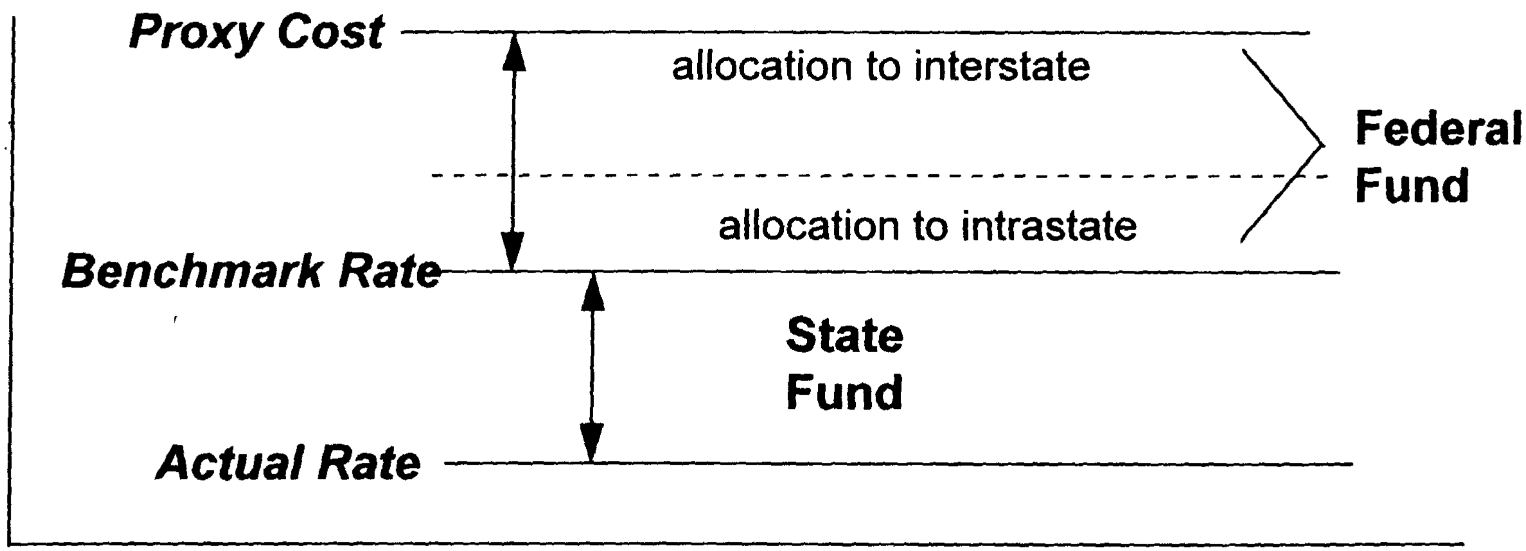
Another Approach: Allocation of High Cost Fund

- Fund size should be sufficient to provide needed interstate support.
- Fund could be allocated 60% interstate and 40% intrastate.
- Current HCF precedent in shifting cost recovery to interstate.
- USF used to reduce:

- Federal	Switched Access
- State	Switched Access
	Toll
	Vertical Services
	Business Services

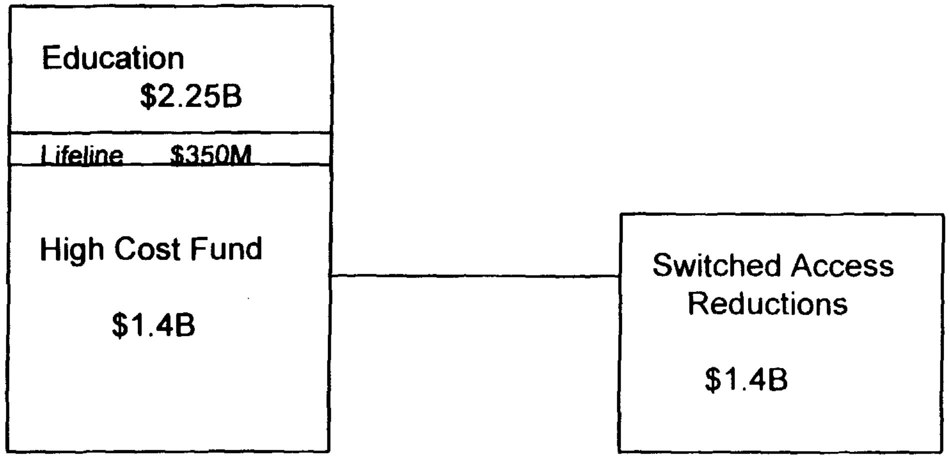
- LECs should work with states to determine appropriate offsetting rate reductions.
- USF should not be used to reduce supported basic residence or single line business rates.

UNIVERSAL SERVICE FUNDING
SPLIT ALLOCATION APPROACH



Interstate Universal Service Fund

$4B Fund



- Assessment based on interstate revenues.
- Does not address full amount of implicit subsidy.
- Does not address any of state implicit support (no rate rebalancing.
- Assumes a benchmark at unrealistic $60.

ADDITIONAL CONCERNS

- Differentiating between primary and secondary residential lines are difficult.
  - Compounded when multiple carrier environment exists.
  - Provides opportunity for arbitrage between providers; one carrier can offer “special deals” to be provider of primary line.

- Primary line identification also a challenge where customer has multiple dwellings, often in different regions of the country.

- Cost to implement could exceed cost for support of all lines.

PROXY MODEL ANALYSIS

- Original purpose was to identify high cost areas.

- Ideally, actual costs should be used.
  However, a reasonable proxy model could suffice.

- Any model used must be carefully designed
  - Build quality realistic network
  - Based on future demand
  - Inputs critical; "garbage in-garbage out"

- Any cost proxy model chosen should be validated against tops down model (e.g., SPR approach) or actual costs.

CHOICE OF PROXY MODEL

- Ultimate model chosen should be consistent with geographic areas used for unbundled elements to prevent arbitrage.

- All variables that impact costs must be included (e.g., extra costs associated with unique local conditions such as hurricanes or zoning).

- No model currently under review "ready for prime time."

- Given the importance of model decision, the FCC must continue to work closely with the industry.

HATFIELD 2.2.2

- Assumptions used in model appear unrealistic. Preliminary analysis of Hatfield 3.0 indicates many of these problems remain.

- Sharing assumptions ignore "real world."
  - Two thirds assignment to non-telco services is unrealistic.
  - Scheduling difficulties.
  - New construction: electricity, telephone, cable.
  - Replacement of plant in existing neighborhoods could not utilize shared trenches.

- Areas for particular scrutiny and changes include:
  - Inputs: fill factors; depreciation lives; cost of capital; percentage of distribution and feeder structure assigned to telco operations; variable overhead factors.
  - Distribution cable design.

- Analysis of Dr. Robert Austin indicates that model shortcomings precludes use in any real world design or cost analysis.
  - Engineering assumptions understated (e.g., pole heights, manhole size, and amount of distribution plant).

BENCHMARK COST PROXY MODEL (BCPM)

- While the BCPM was developed by Sprint, US West, and Pacific, other companies have provided design input.

- BCPM fixes major flaws of BCM2.
  - CBGs assigned to correct wire centers
  - Expanded user control of input
  - Increased detail in feeder plant
  - Improvements in switching technology and costs

- Retains strengths of BCM2 model.
  - Distribution cable design
  - Small geographical area results

- Further analysis is needed.

FUND ADMINISTRATION

- Interim
  - Aggressive implementation schedule for education requires expeditious action
  - NECA's proposed new subsidiary would provide separation from its current obligations yet its expertise in dealing with fund administration would be retained.
- Permanent
  - Divested entity proposed by NECA could fulfill requirement as "neutral third party".